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Tuesday, February 26, 2002

[Home](#) > [Views](#) > [Denise Culver](#) > [Sorry, CLECs, but It's Over](#)

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[Industry Q&A](#)

[Finance](#)

[Markets](#)

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Views



June 4, 2001

Sorry, CLECs, but It's Over

By [Denise Culver](#)

1. The Bells have no fear. If you want indisputable proof that the Bell companies have chased their competitors off the runway, look no further than Carol Wilson's home state, Illinois. SBC Chairman Ed Whitacre said that his Bell would deny DSL service to 1 million consumers in that state if state regulators didn't back down on their requirement that SBC unbundle its services and offer them to competitors at wholesale rates. When the Illinois Commerce Commission refused to budge, SBC pulled Project Pronto, its DSL master plan, off the table for Illinois without a second thought, even though the company had agreed to provide the service as part of its merger agreement with Ameritech in 1999.

SBC has since announced the second phase of Project Pronto, which involves using passive optical network technology to serve businesses, thus freeing more copper lines for DSL. After dangling this enticing new technology in front of its customers and regulators, however, SBC added the familiar caveat: Deployment of this new technology hinges on "favorable regulatory conditions." Translation: SBC is willing to sit on its PONs until regulators come around to its way of thinking.

The sheer lack of fear that SBC displayed in thumbing its nose at Illinois state regulators and completely altering the plans of a service tied to a condition of its merger agreement with Ameritech stand as a clear pronouncement: * he Bell companies have won the local services war.

2. There is nothing — and no one — that can stop the Bells. Looking back two decades at the Ma Bell era, it's easy to ask the question, "What would stop us from going back to a Ma Bell?" The more direct question is, "Have we ever gotten away from Ma Bell?" For all intents and purposes, the obvious answer is no.

Five years after passage of the Telecommunications Act, the Bells continue to serve 92% of residential customers. That's because even though service providers of all stripes have poured more than \$100 billion into creating networks, the last mile remains under the Bell companies' almost total control. That control continues to deliver healthy profits. Bruce Kushnick, president of New Networks Institute, is issuing a report this month that will show Bell company profits are 212% greater than utility companies and 256% greater than companies in the Business Week 500.

"The Bells definitely are more powerful than they ever have been," laments Andy Schwartzman, president and CEO of Media Access Project, a public-interest telecom law firm. "It's a major legislative wipeout that's hard not to see."

3. The Bells have learned the art of survival by hunkering down. Say what you will about the "real competitors" that the Bells have yet to face — those like AT&T, WorldCom and Sprint. The fact remains that the Bells are like grizzly bears that store up fat for the long winter and then hunker down in a cave to wait out the cold.



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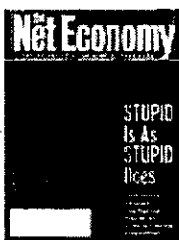
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Bells know a great deal that companies like those "real competitors" haven't yet learned. They have more than 100 years of experience going out to customer homes, knocking on doors, laying cable in neighborhoods, putting in extra phone lines, repairing outages during storms and many other hands-on customer service issues that a long-distance carrier can't begin to understand. Consumers know and understand what it means to call "the phone company" to come out and fix the phone. They don't know what it means to call the long-distance company to do so. That change in perception is a long way from occurring, despite the intentions of the Telecommunications Act.

Meanwhile, the Bells have been busy getting ready to take full advantage of getting into their competitors' backyards once approval is granted — and it's being granted at an accelerated rate. Verizon Communications garnered more than 1.2 million long-distance customers in New York in just the first 10 months of offering long-distance service there, while SBC reached 1 million customers in Texas in about eight months. With a new FCC that's likely to be more lenient about letting Bells into long distance, customer attrition in the long-distance market will continue.

And there's a definite long-range agenda here. "The Bells went into the long-distance market for one reason: * he data side," says Mark Cooper, president of the Consumer Federation of America. "Now that they've got a friendly administration, and to the extent that long-distance data is inviting, they're going for it."

4. The Bells will roll out broadband service when — and where — they want to. Make no mistake about it: Bell companies had the technology to provide DSL service for more than a decade, but they didn't want to provide it because it posed a risk to T1 business services.

Everyone pretty much agrees that the Bells have continued to drag their feet on DSL deployment, causing CLECs and Internet service providers to lose connections and customers. The result for the Bells? Their most serious rivals are falling by the wayside. With them out of the way, the Bells already have started raising rates on DSL service. And they're rolling out service to where and to whom they want.

As for the threat from cable, the old arguments remain. Cable companies can't provide voice service, and cable isn't available in all markets. Furthermore, cable is facing its own battles from satellite services, so Bells aren't overly concerned with attrition from that front. "Cable isn't competing in local facilities-based telephony," Schwartzman says. "It's just not happening."

5. It wasn't the beauty that won this contest. It was the beast. The CLECs started out with plenty going for them: bright ideas, plenty of energy, big, fat, sugar-daddy investors and a proregulatory FCC. Meanwhile, the Bells plodded along, maintaining the same maddening pace and seemingly thick-headed mentality that, while not aesthetically appealing, ultimately results in a win every time.

CLECs are both broken and broke. Their business plans have crashed, and their energy is gone. Those VCs that were lined up around the block now won't bother with a second look. The FCC has switched sides, and the Telecommunications Act has proven to be worth its weight in paper. The Bells, meanwhile, have healthy profit margins, and they're expanding into new business markets.

Who won? Never bet against Mother.

Sure. Interactive features and video-on-demand justify building out multi-billion-dollar networks. Maybe. Show me the goods, and the price, and I'll consider ITV. No way. Pay a steep monthly fee for what I can buy permanently and cheaply at Best Buy? Get real.


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ICC Commissioner Blasts SBC

Source: Chicago Sun - Times

April 23, 2001 (The Digest) - Last month, Ed Whitacre, SBC Communications' chairman and CEO, and local SBC Ameritech executives announced that the company was abandoning its commitment to deploy high-speed Internet access to Illinois consumers. To justify this decision, SBC Ameritech cited a recent decision by the Illinois Commerce Commission that, according to the company, unfairly required them to share their network with their competitors. After all, the company argued, cable, wireless and satellite providers of high-speed Internet services are not required to share their networks with their competitors, so why should SBC Ameritech be required to do so? Unfortunately, SBC Ameritech misses the point.

The ICC decision focused on increasing competition among the companies that provide high-speed Digital Subscriber Line services to residential and small-business consumers by utilizing SBC Ameritech's upgraded network facilities. The issue was not, as Whitacre would have you believe, competition among cable, wireless and satellite Internet service providers but, rather, companies that provide DSL services through the use of SBC Ameritech's voice network.

Through what SBC Ameritech termed "Project Pronto," the company planned to invest in new technology to upgrade their facilities to support both voice and DSL service to consumers—an upgrade that was long overdue. This new technology would allow SBC Ameritech to overcome the distance limitations of current DSL technology and reach millions of consumers now unserved by any DSL provider. Since no other provider offers high-speed Internet access to these customers, SBC Ameritech would be the sole provider to these customers. The ICC ruling requires the company to allow its competitors meaningful access to their network at reasonable prices so that they may reach remote consumers as well, thereby increasing the number of companies providing DSL service and spurring sufficient competition to lower the cost to consumers.

Not surprisingly, the story does not end there. In a carefully worded letter to

several members of Congress last month, Whitacre harshly criticized the ICC decision and said that SBC Ameritech has "been forced to halt indefinitely further deployment and activation of new DSL facilities in Illinois that would have made high-speed Internet service available to over a million Illinois consumers. . . . Those customers cannot now, and may never, have access to DSL service."

As we all know, the competitiveness of a market easily can be measured by one player's ability to control the supply of a good. Whitacre's statement is clear: SBC Ameritech controls the market so completely that it can determine if more than a million consumers in Illinois will have access to broadband services. If the market were competitive, SBC Ameritech would not be able to unilaterally halt the deployment of DSL infrastructure and deny Illinois consumers advanced telephone services.

Whitacre's letter goes on to criticize the decision on the grounds that it "will cost hundreds of millions of dollars to implement" and "has made it economically impossible for SBC to recover the cost of deploying and operating the new DSL service in Illinois." Unfortunately, there are several problems with his statement.

First, despite being subject to three separate proceedings regarding access to Project Pronto, the company failed to provide the ICC with any estimate of what, if any, additional cost such a decision would impose. Second, the ICC's decision allows SBC Ameritech to recover the costs associated with the sharing arrangement via rates already in place in Illinois. Third, under the ICC's order, SBC Ameritech would not only receive the wholesale revenue from the competitors' use of the network for DSL, but also the wholesale or retail revenue associated with the voice services provided over the same lines.

Whitacre concludes by saying "the ICC order unwisely jumps the gun on Congress and the FCC on these critical issues, to the detriment of both competition and consumers in Illinois, and may tempt other states down the wrong path as well." In other words, Whitacre contends that the ICC's order to increase the number of competitors in the high-speed DSL market will deter competition. I guess that makes sense coming from the man Business Week magazine labeled as "the last great monopolist."

Perhaps he hopes that the innovative and forward-looking policies that have been developed by the ICC over the last several decades and implemented at the federal level and in other state jurisdictions are ignored or preempted by federal legislation.

If you ask Whitacre, I am certain he will tell you that he wants to provide high-speed Internet service to Illinois consumers. What he will not say is that he will do so only to the extent that he is the sole provider of such services. In other words, Whitacre wants to extend his monopoly over the local telephone network to high-speed Internet access. Maybe that is why SBC was able to reduce service and increase the price for DSL service by 25 percent last month.

Whitacre's statements are the most compelling reason for the continued implementation of the Federal Telecommunications Act of 1996, especially its market-opening provisions, by state and federal agencies. Any national broadband policy must emphasize and provide incentives for companies like SBC Ameritech to continue to improve their infrastructure by adding broadband service capabilities to their existing network. Without competitive guidelines like those to which Whitacre objects, it is very likely that millions of consumers in Illinois never will see the intended benefits of competition in the form of lower prices, multiple choices for broadband services and improved customer service.

Terry S. Harvill is a commissioner on the Illinois Commerce Commission.

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OUTSIDE THE BOX

Taking broadband to the next stage

By Garry Betty

Last Update: 12:13 AM ET Feb. 20, 2002

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Editor's note: Outside the Box features commentary from some of Wall Street's most respected thinkers. Garry Betty is CEO of EarthLink, Inc.

ATLANTA - Lately, the question I get asked most is "what's wrong with broadband?"

The huge growth that was forecast a year or two ago hasn't materialized, and a growing number of analysts are now predicting doom and gloom for the high-speed sector. But just like dot-com stocks, I think people had overblown ideas about how quickly broadband would take off, and now they've swung too far to the other side of the spectrum, writing broadband off prematurely.


The first, and one of the most important factors impacting broadband growth, is price. The price point for high-speed Internet access is generally between \$40 and \$50 per month. That's real money. The Yankee Group recently did a study that showed 57 percent of consumers expressed interest in high-speed Internet access when price wasn't mentioned, but only 23 percent said they would actually purchase such a service if the price point were \$45. That's consistent with our own internal research and makes logical sense.

Something we're monitoring closely at EarthLink is the way DSL sells internationally. In countries like Canada, South Korea and Japan, the price point for DSL service is under \$30. Accordingly, in those countries, the growth of those services is very high. In fact, their sales numbers much more closely reflect the high expectations initially set for broadband in our country. The

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important thing to note is that broadband providers in other countries are showing the world that marketing a reasonably priced broadband service is possible, and that people will buy it even in a bad economy. The telecommunications industry in the United States just needs to figure out how to make it work.

Second issue

Tied very closely to price is competition, or in this case, the lack thereof. Although a lot of people would like to believe that cable and DSL are direct competitors, the number of markets where the two actually go head to head is relatively small. It's more likely that a consumer has a choice of one or the other or neither. Cable is only now starting to open up its infrastructure to alternative ISPs, and the local Bell companies have virtually no remaining competition. If high-speed alternatives like fixed wireless become available, there will be more options available to the consumer, so we'll be watching those technologies closely as they develop.

As we all learned in economics 101, lack of competition means the consumer can expect higher prices and poorer service, since the power of the free marketplace isn't allowed to keep those things in check. So although the industry is moving in the right direction by opening up its infrastructure and fostering competition, we have a long way to go, and we can't allow any backward steps.

Third factor

There's one more factor that's having a negative impact on broadband growth. A lot of people call it lack of a "killer app," that will magically drive demand for high-speed access, but I look at it a bit differently. Basically, we've reached a new stage in broadband's life cycle. The early adopters - the low-hanging fruit - already have broadband for the most part. Now broadband must reach into the mass market for its growth, but quite frankly, I believe it won't work with these folks the same way that we, as an industry, have historically promoted it.


With the early adopters, we could simply point out that broadband is 50 times faster than dialup and "always on," and they'd line up in droves to buy it. And buy it they did, as the early sales numbers illustrate. But as an industry, we now need to be more creative. The average dial-up Internet user doesn't understand why he or she needs more speed, why being "always on" is significant, or why the price is more than double the cost of dial-up. So it's incumbent on us, as an industry, to stimulate demand by illustrating how high-speed Internet access changes people's whole relationship with the Internet. There's no obvious "killer app" on the horizon, but most people who already have broadband would sooner sell a body part than go back to dial-up and that should tell us that broadband doesn't need a magic bullet to be attractive.


All in all, it would be pretty easy to conclude that the broadband industry is in for a rough ride: we're trying to sell a higher priced service in a tight economy to consumers who don't understand why they need it.

But I'd argue that the future is bright. Jupiter Communications estimates that the market for broadband -- which took five years to reach 10 million households -- will increase by about 5 million households per year between now and 2006. As competition gets stronger and the number of broadband users increases, prices will come down and margins will increase, just as they did on the dial-up side a few years ago. The industry needs to recognize that it must better communicate broadband's value proposition. In fact, that message

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is a key component of EarthLink's competitive strategy. Just as EarthLink was able to successfully communicate the benefits that successfully differentiated it from the competition when dial-up was catching on in the late 1990s, I think those messages - the value of reliable connections and great customer support -- will also resonate with broadband users because they never go out of style.

In short, high-speed access is just too convenient and useful not to make an impact with mass consumers. And with just 10 percent market penetration, the competitive landscape is wide open. Unlike the dial-up market, there aren't any 800-pound gorillas in broadband, and most of the potential behemoths are either regional players or they've been slow to embrace high-speed access. To my mind, the question isn't whether broadband is a viable business, but who will be at the top of the heap when the dust settles.

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REBUTTAL TESTIMONY OF RICK JACOBS

Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Rick Jacobs; my title is General Manager-Network Regulatory. I am employed by SBC Management Services, Inc., a subsidiary of SBC. My business address is 105 Auditorium Cr., San Antonio, TX, 78215.

Q. ARE YOU THE SAME RICK JACOBS WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I am.

Purpose

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My purpose is to respond to statements made by Ms. Charlotte TerKeurst in her direct testimony on behalf of the Government and Consumer Intervenors ("GCI") regarding Ameritech Illinois's network infrastructure investments. I will

address the use of Digital Loop Carrier ("DLC") technology in Ameritech Illinois' loop facilities, and the benefits to be enjoyed by all classes of customers that will result from the investments being made by Ameritech Illinois as part of SBC's Project Pronto initiative.

Digital Loop Carrier

Q. WHY HAS AMERITECH ILLINOIS DEPLOYED DIGITAL LOOP CARRIER SYSTEMS IN ITS OUTSIDE PLANT NETWORK?

A. Since the early 1980's, telephone industry engineering design standards for outside plant have replaced long copper cable loops with Digital Loop Carrier ("DLC") systems. These DLC systems and engineering standards are widely used by Local Exchange Carriers and are the most cost effective method for provisioning a high quality outside plant network.

Q. DOES THE USE OF DLC SYSTEMS ADVERSELY AFFECT THE QUALITY OF SERVICE THAT AMERITECH ILLINOIS PROVIDES TO IT'S CUSTOMERS?

- A. No. DLC systems provide good dependable basic telephone service, and services provisioned over DLC systems meet or exceed all applicable service quality standards.

Q. DO CARRIER SYSTEMS LIMIT DIAL-UP DATA SPEEDS?

- A. DLC systems used in conjunction with short copper loops can provide for excellent dial-up data speeds using standard analog-based modems. The limiting factor for dial-up data speed over DLC-based local access lines is the conversion of the data signal from analog to digital (A/D). Therefore, ideally, the number of A/D conversions should be limited to provide the best transmission speed. This goal can be best achieved when the central office terminal for the DLC is integrated into the central office switch. In addition, it should be understood that copper cable pairs also have limiting factors that can reduce the effective speed of modem-based data transmission.

Q. WHAT LIMITS DATA SPEED ON COPPER CABLE PAIRS?

- A. Bridged tap and load coils both reduce the speed of dial-up data. Bridged tap lengthens the loop and can create an echoing effect that could cause the data modem to slow down. Load coils are designed and deployed to improve the quality of voice frequencies (typically 200 to 3500 Hz). Usable

bandwidth where load coils are deployed is limited by the flattening of the signal and the introduction of a sharper roll-off at the high frequency end of the voice frequency range, preventing the high modem connect speeds.

Q. IS THE USE OF DLC TECHNOLOGY INCONSISTENT WITH THE REQUIREMENTS OF 83 ILLINOIS ADMINISTRATIVE CODE PART 730.310 AS SUGGESTED BY MS. TERKEURST?

A. Absolutely not. The deployment of DLC systems is completely consistent with the requirements of the Administrative Code. In addition, Ms. TerKeurst appears to be citing to an outdated version of the Code. The current Part 730.310 (effective September 1, 2000) states that "No local exchange carrier shall offer party line service." This appears to me to represent a clarification of the previous version of Part 730.310 which was quoted by Ms. TerKeurst. Party line service is defined in Part 730.105 as "a service offering where two or more unaffiliated end user customers share the same line and telephone number". DLC systems are not party lines in that each end user is assigned a dedicated channel and phone number.

Project Pronto

Q. IN MS. TERKEURST'S COMMENTS REGARDING AMERITECH ILLINOIS' PROJECT PRONTO PLANS, SHE IMPLIES THAT THE RELATED INVESTMENTS WILL NOT "ENHANCE" AMERITECH ILLINOIS RETAIL SERVICES. IS THIS AN ACCURATE ASSESSMENT FROM A NETWORK PERSPECTIVE OF THE INVESTMENTS ASSOCIATED WITH NETWORK COMPONENTS NECESSARY TO SUPPORT PROJECT PRONTO?

A. No. Project Pronto adds capacity to the network that is beneficial for consumers. The overall investment in the various components described in my earlier testimony helps "ensure a modern, high-quality network providing exceptional service to all of Ameritech Illinois' customers"¹ by expanding the availability of highly-demanded broadband services such as DSL to include additional consumers and businesses that cannot be reached today directly from central office ("CO") Digital Subscriber Line Access Multiplexers ("DSLAMS") over all-copper loops, and the Project Pronto architecture does so at the lowest possible cost. In addition, while the focus of Project Pronto is the deployment of Central Office Terminal and Remote Terminals that will extend the loop reach for current and future broadband services, the fiber

transmission facilities that are being deployed will also satisfy the goals of the Merger Order by providing additional capacity (and free up existing copper capacity as customers that purchase broadband services are moved to the Pronto network) that can be used to support the growth of other non-data related retail services such as POTS.

Q. WILL AMERITECH ILLINOIS'S AFFILIATE AADS BE THE ONLY SERVICE PROVIDER THAT WILL BENEFIT FROM THE INFRASTRUCTURE INVESTMENTS ASSOCIATED WITH PROJECT PRONTO?

A. No. Broadband-focused service providers such as Covad, Rhythms, and Northpoint, as well as other more broadly-focused CLECs that may choose to add broadband services to their offerings, will benefit from the network investments Ameritech Illinois is making in connection with Project Pronto. Of course, the ultimate beneficiaries of these capabilities are the retail customers who obtain data services (such as Internet access or business LAN connections) that include a broadband access component. With the deployment of additional fiber and Next Generation Digital Loop Carrier ("NGDLC") systems, all providers offering broadband services will be capable of provisioning those distance-limited broadband services to a

¹ SBC/Ameritech Merger Order (Docket 98-0555) at 15.

wider range of locations and customers through their ability to use the
Ameritech Illinois network on a non-discriminatory basis.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.